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SUBJECT: COALITION POISED TO WIN FIRST BY-ELECTION

1. (SBU) SUMMARY: The National Party candidate appears poised to win a June 28 by-election that has been billed by the media as a major test of Brendan Nelson's leadership and, to a lesser extent, as a bellwether signaling the end of the Rudd Government's honeymoon. Most observers expect The Nationals to retain the regional Victorian seat of Gippsland seat, which it has held since 1922. The Liberal-National Coalition parties have been campaigning hard on Rudd's "broken promises" on cost of living issues, and the threat to local jobs from ill-considered approaches to climate change. The Australian Labor Party (ALP) candidate is trying to capitalize on the popularity of Kevin Rudd but he appears to have gained little traction with the voters. A victory will give the National Party and Brendan Nelson, both of whom are facing questions over their long-term viability, a big boost. As long as there is no significant swing against the ALP, a loss should be of little consequence to the Rudd Government. END SUMMARY.

ALP DOWNPLAYS ITS CHANCES WHILE NATIONALS GO ALL OUT

2. (SBU) The by-election followed the resignation of Howard Government agriculture minister Peter McGauran, who had held the seat since 1983. Gippsland, in the state of Victoria's Southeast, is a regional seat that is agricultural but also contains the La Trobe Valley, which is the heart of the Victorian coal industry and the center of electricity generation for Melbourne. The Nationals have gone all out to retain Gippsland and the Liberals are putting in a big effort, perhaps reflecting the pressure Brendan Nelson is under. As expected, the Liberals and Nationals are giving their second preferences to each other on their "how to vote cards." For the Coalition, the by-election is crucial because a loss would further destabilize Brendan Nelson's leadership, and fuel talk about the Nationals' long-term viability. Publicly and privately, the ALP is downplaying its chances and has invested substantially less resources in the seat than the Coalition (although the ALP has substantially increased its presence in the last two weeks).

LOCAL FACTORS, NATIONAL ISSUES

3. (SBU) The Coalition candidates have been running hard on protecting coal industry jobs, petrol prices, helping pensioners who feel let down by the budget, Rudd's tax hike on premixed alcoholic drinks, and improving local services. The Nationals are calling on voters to send a message to Canberra "that Gippsland won't be taken for granted." In Parliament this week, the Coalition has been talking up the impact of the Government's proposed carbon trading scheme on petrol prices, evidently with an eye on this weekend's by-election. The ALP candidate is trying to capitalize on Rudd's popularity, calling on voters to give Gippsland a voice inside the Rudd Government, but he is hamstrung by the fact that the local ALP rank-and-file is angry that ALP Victorian head office parachuted him into the seat. The

candidate, a local city councilor, only joined the ALP the day before he was chosen. As a result, some ALP rank and file members have refused to help the campaign. The Liberals and Nationals are screening advertisements featuring disenchanted ALP members.

COALITION WILL WIN, BUT SHOULDN'T GET ITS HOPES UP

14. (SBU) COMMENT: While one Liberal Party insider told us recently that Rudd's popularity would make this election difficult for the Coalition, historically, by-elections generally swing against governments. In the first year of Qgenerally swing against governments. In the first year of the ALP's Hawke Government there were six by-elections caused by Coalition resignations. Hawke was highly popular at the time, but the best result for the ALP was a 0.5 percent swing against it. Rudd is indeed popular but Gippsland is a conservative seat. The National Party is fielding the best candidate and the local ALP is unhappy with its representative. It will be interesting to see how much of an impact the Coalition's scare campaign on carbon emission controls has on the voters of the coal-mining, electricity-generating Latrobe Valley. A Coalition loss, or narrow Coalition victory, would hurt Coalition morale and likely expedite the timetable for Brendan Nelson's removal. On the other hand, a Nationals victory should not cause Rudd to lose any sleep, provided there is not a substantial swing against the government.

15. (U) This message was prepared by U.S. Consulate General Melbourne in collaboration with U.S. Embassy Canberra.

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